

Message Text

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42

ACTION AF-18

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 CIAE-00 INR-11 NSAE-00 COME-00

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R 171326Z SEP 74

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 0610

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMEMBASSY GABORONE

AMCONSUL JOHANNESBURG

AMEMBASSY MASERU

AMEMBASSY MBABANE

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CAPE TOWN FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN, SF, WZ, BC, LT

SUBJECT: RAND MONETARY AREA

SUMMARY. SA RESERVE BANK OFFICIAL DESCRIBES DEVELOPMENTS IN MONETARY ARRANGEMENTS WITH LESOTHO, SWAZILAND AND BOTSWANA. CALLS BOTSWANA DECISION TO CREATE OWN CENTRAL BANK A SERIOUS MISTAKE. END SUMMARY.

1. IN CONVERSATION WITH EMBASSY OFFICER SEPTEMBER 13, DEPUTY GOVERNOR OF SA RESERVE BANK (DE KOCK) DESCRIBED RECENT DEVELOPMENTS IN MONETARY ARRANGEMENTS AMONG SOUTH AFRICA, LESOTHO, SWAZILAND AND BOTSWANA.

2. THE FOUR COUNTRIES NOW FORM ONE MONETARY AND CUSTOMS AREA,
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WITH THE SA RAND AS THE COMMON CURRENCY. AS MBABANE HAS REPORTED,

SWAZILAND NOW ISSUES ITS OWN CURRENCY (THE LILANGENI), BUT IT IS BACKED 100 PERCENT BY THE RAND, WHICH CIRCULATES IN SWAZILAND ALONGSIDE THE LOCAL CURRENCY.

3. NEGOTIATION HAVE BEEN GOING ON FOR TWO YEARS TO FORMALIZE THE MONETARY ARRANGEMENTS AND TO GIVE THE THREE SMALLER COUNTRIES CERTAIN BENEFITS THEY HAVE NOT HAD BEFORE. CHIEF AMONG THESE IS COMPENSATION FOR THE INTEREST FOREGONE ON THE CURRENCY IN CIRCULATION IN THE THREE STATES. THE ARRANGEMENTS BEING NEGOTIATED CONTEMPLATE A DIRECT PAYMENT TO LESOTHO, RETROACTIVE TO 1971. THIS PAYMENT WOULD COMPENSATE FOR THE INTEREST THE COUNTRY WOULD EARN ON THE RANDS IF IT REDEEMED THEM AND DEPOSITED THEM IN AN INTEREST-BEARING ACCOUNT IN SA. THE SAME ARRANGEMENT WAS CONTEMPLATED FOR BOTSWANA, WHILE SWAZILAND WOULD DEPOSIT ITS REDEEMED RANDS IN THE SA RESERVE BANK AND EARN INTEREST.

4. OTHER BENEFITS FOR THE SMALLER STATES INCLUDE ACCESS TO THE SOUTH AFRICAN CAPITAL MARKET AND AN EXCHANGE AND REPATRIATION GUARANTEE FOR FOREIGN INVESTORS IN THE THREE COUNTRIES. FOR THEIR PART, THE THREE WOULD HAVE TO ADOPT EXCHANGE CONTROLS TO PREVENT SA CAPITAL FROM BEING EXPORTED THROUGH ONE OR MORE OF THE THREE SMALL STATES.

5. DE KOCK SAYS THAT THESE NEGOTIATIONS WERE GOING SMOOTHLY UNTIL SWAZILAND ANNOUNCED THAT IT WAS ISSUING ITS OWN CURRENCY. IN VIEW OF THE 100 PERCENT BACKING FOR THE LILANGENI, THE SWAZILAND ARRANGEMENT WAS NOT SIGNIFICANTLY DIFFERENT FROM THAT FOR THE OTHER TWO STATES, BUT THE BOTSWANA PRIME MINISTER TOOK THE ANNOUNCEMENT TO MEAN THAT SWAZILAND WOULD HAVE ITS OWN CENTRAL BANK AND THUS BECOME "MORE INDEPENDENT" THAN BOTSWANA. THIS HE COULD NOT TOLERATE SO HE ANNOUNCED HIS INTENTION TO WITHDRAW FROM THE RAND AREA ENTIRELY AND CREATE A TRUE BOTSWANA CENTRAL BANK. IF THIS HAPPENS, SA WILL NOT OFFER THE GUARANTEES IT INTENDS TO OFFER TO INVESTORS IN THE OTHER TWO STATES. DE KOCK CLAIMS THAT THIS WILL SIGNIFICANTLY DAMPEN THE ENTHUSIASM OF SOUTH AFRICAN AND OTHER INVESTORS INTERESTED IN BOTSWANA. HE REGARDS THE BOTSWANA DECISION, IF CARRIED OUT, AS A SERIOUS MISFORTUNE FOR THE NEW NATION. HE BELIEVES THAT THE DEMANDS OF NATIONALISM COULD HAVE BEEN MET BY AN ARRANGEMENT

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LIKE THE ONE SWAZILAND HAS ADOPTED AND HE HOPES THAT BOTSWANA WILL REVERSE ITS STAND, AT LEAST AS FAR AS TO ADOPT A SWAZI-TYPE SOLUTION.
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